



# WEEKLY ECONOMIC DIGEST

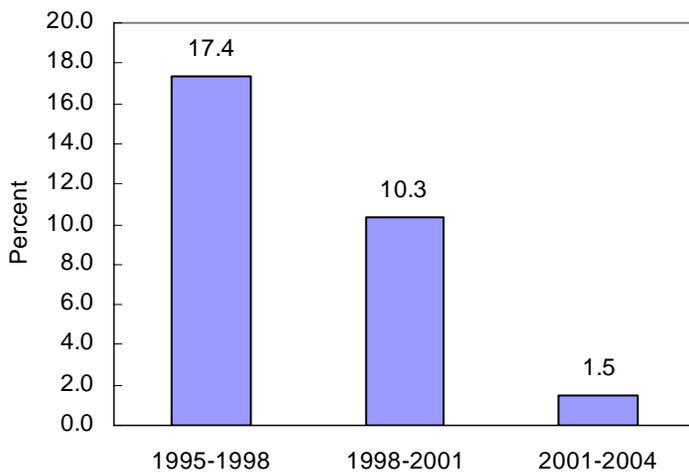


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

February 28, 2006

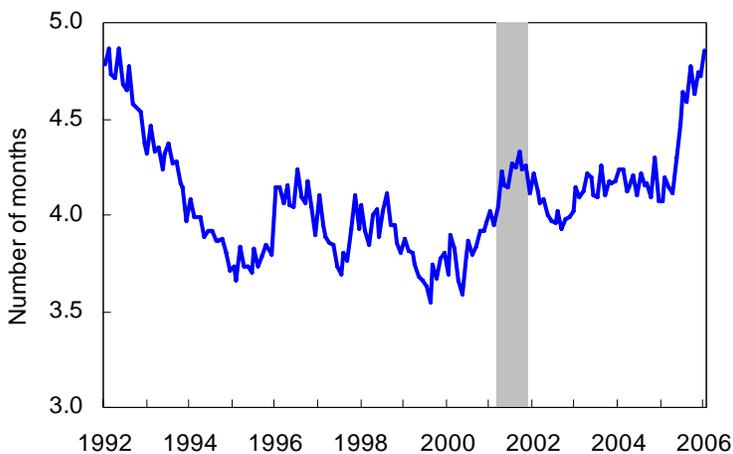
## Fed Survey Shows Wealth and Income Stagnation Since 2001

Change in Median Net Worth: 1995-2004



Source: Board of Governors, Federal Reserve System.

Ratio of Unfilled Orders to Shipments, Nondefense Capital



Source: Census Bureau, U.S. Department of Commerce and National Bureau of Economic Research.

Note: Gray areas indicate periods of recession as defined by the National Bureau of Economic Research.

- **The wealth of the typical American family changed little between 2001 and 2004.** Median net worth (the difference between the gross assets and liabilities of the typical American family) was \$93,100 in 2004, an increase after adjusting for inflation of only 1.5 percent since 2001, according to the Federal Reserve's most recent Survey of Consumer Finances. That growth in median family wealth was substantially below the 10.3 percent gain between 1998 and 2001, and the 17.4 percent gain between 1995 and 1998 (see top chart).
- **Real family income stagnated as well.** The Fed study's data on real (inflation-adjusted) family income were consistent with other data showing stagnation in recent years. Real median family income rose by just 1.6 percent between 2001 and 2004, after rising by 9.5 percent between 1998 and 2001, and 2.6 percent between 1995 and 1998.
- **Orders for capital goods plunged in January, but the near-term outlook for shipments remains positive.** New orders for nondefense capital goods declined by 20.0 percent in January, reflecting a 68.2 percent decline in aircraft orders, which are typically quite volatile. However, in the three months prior to January's decline, new orders for capital goods rose by 32.8 percent. As a result, unfilled orders are equal to nearly 5 months of shipments at the current rate (see bottom chart), and shipments are likely to remain relatively strong in coming months.
- **Sales of new homes declined last month.** Sales of new single-family homes dropped by 5.0 percent in January. That decline surprised financial markets, which had expected a 0.1 percent increase, and it left sales 3.3 percent above their level a year earlier. The median sales price of new single-family homes was \$238,100 last month, up by 6.7 percent from a year earlier. The slowing of sales in January left the inventory of new homes for sale (the equivalent of 5.2 months of sales at the current rate) at its highest level since November 1996.

The Economy at a Glance	Jan	Dec	Nov	Oct	2005 Qtr 4	2005 Qtr 3	2005 Qtr 2	2005 Qtr 1	2005	2004
<b>Economic Activity</b>										
Real GDP (% growth)*	—	—	—	—	1.1	4.1	3.3	3.8	3.5	4.2
Industrial Production (% growth)	-2.4	11.4	14.0	14.0	5.6	1.4	1.6	3.8	3.3	4.1
Capacity Utilization (level, %)	80.9	81.2	80.6	79.9	80.6	79.8	79.9	79.9	80.1	78.6
Civilian Unemployment Rate (level, %)	4.7	4.9	5.0	4.9	5.0	5.0	5.1	5.2	5.1	5.5
Housing Starts (thousands)	2276	1988	2136	2051	2058	2101	2044	2083	2072	1950
Real Disposable Personal Income (% growth)*	n.a.	5.0	10.0	4.9	7.0	-2.0	0.2	-3.4	1.4	3.4
Retail Sales (% growth)	32.0	4.6	11.2	2.6	2.0	6.9	11.2	4.8	7.5	7.3
Personal Saving Rate (level, %)*	n.a.	-0.7	-0.2	-0.1	-0.4	-1.8	-0.2	0.5	-0.5	1.8
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, all items (% growth)	8.7	-1.2	-8.1	3.7	3.2	5.5	3.7	2.5	3.4	2.7
Core CPI-U Inflation (% growth)	2.4	1.2	2.4	2.4	2.4	1.6	2.0	2.5	2.2	1.8
Employment Cost Index (% growth)	—	—	—	—	3.2	3.2	2.8	2.8	3.2	3.9
Output per Hour (% growth)	—	—	—	—	-0.6	4.5	2.1	3.2	2.7	3.4
<b>Financial Markets</b>										
T-bill Rate, 3-month (level, %)	4.24	3.89	3.88	3.71	3.83	3.36	2.86	2.54	3.15	1.37
T-note Rate, 10-years (level, %)	4.42	4.47	4.54	4.46	4.49	4.21	4.16	4.30	4.29	4.27
Federal Funds Rate (level, %)	4.29	4.16	4.00	3.78	3.98	3.46	2.94	2.47	3.22	1.35
Dow Jones Industrial Avg (index level)	10872	10828	10695	10324	10616	10544	10382	10648	10548	10317

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

\* Subject to revision over the next week.

### Upcoming Economic Releases:

- **Gross Domestic Product: Fourth Quarter 2005 (Preliminary)** [Release: Tuesday, February 28]
- **Existing Home Sales: January 2005** [Release: Tuesday, February 28]
- **Personal Income and Outlays: January 2006** [Release: Wednesday, March 1]
- **Construction Spending: January 2006** [Release: Wednesday, March 1]
- **Productivity and Costs (Revised): Fourth Quarter 2005 and Annual Averages for 2005** [Release: Tuesday, March 7]